

Message Text

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PAGE 01 WELLIN 04908 01 OF 02 000000Z

ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05

CEA-01 L-03 H-01 PA-01 PRS-01 AGRE-00 (ISO) W

-----036243 010337Z /15

R 312227Z OCT 77

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 4268

INFO AMEMBASSY CANBERRA

AMEMBASSY PARIS

USDOC WASHDC

AMEMBASSY SUVA

AMCONSUL AUCKLAND POUCH

LIMITED OFFICIAL USE SECTION 01 OF 02 WELLINGTON 04908

PARIS FOR USOECD

EO 11652: N/A

TAGS: ECON, ELAB, ECSM, EFIN, NZ

SUBJECT: GNZ ANNOUNCES ECONOMIC PACKAGE TO MODERATE
CONTRACTING ECONOMY

REF: WELLINGTON 3325

1. BEGIN SUMMARY: THE GOVERNMENT OF NEW ZEALAND
(GNZ) HAS ANNOUNCED A SUPPLEMENT TO THE ANNUAL BUDGET
IN AN EFFORT TO BOOST THE DOMESTIC ECONOMY WHILE KEEPING
THE LID ON IMPORTS AND THE RATE OF INFLATION. A MORE
FAVORABLE CONSUMER PRICE INDEX FOR THE JUNE QUARTER, THE
NECESSITY OF ABSORBING PEOPLE LEAVING SCHOOL INTO THE
WORK FORCE NEXT YEAR AND A DISAPPOINTING PUBLIC OPINION
POLL FOR THE GOVERNMENT ALL CONTRIBUTED TO THE ANNOUNCE-
MENT OF THESE MILDLY STIMULATIVE MEASURES AT THIS TIME.

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PAGE 02 WELLIN 04908 01 OF 02 000000Z

END SUMMARY.

2. IN THE EFFORT TO WALK THE NARROW LINE BETWEEN
THE DANGERS OF INFLATION AND THE PERILS OF ECONOMIC
STAGNATION, THE GNZ LATE LAST WEEK ANNOUNCED A SUPPLEMENT
TO THE NATIONAL BUDGET (SEE REFTEL) TO PUT THE BRAKES A
BIT ON THE DEMAND DEFLATION AND WORSENING EMPLOYMENT

OPPORTUNITIES CAUSED BY THE GOVERNMENT'S TIGHT MONETARY AND FISCAL POLICIES TO DATE. KEY ELEMENTS OF THE NEW PACKAGE INCLUDE:

3. (A) A "CHRISTMAS BONUS" FOR FAMILIIES - A SPECIAL SUPPLEMENTARY FAMILY BENEFIT OF 25 DOLLARS PER CHILD IS TO BE PAID ON NOVEMBER 29
- (B) A TAX CUT FOR EVERYONE - AN ACROSS-THE-BOARD REDUCTION IN PERSONAL INCOME TAX OF FIVE PERCENT FROM FEBRUARY 1
- (C) RELAXED LEVELS OF REQUIRED DOWN PAYMENTS ON INSTALLMENT PLAN PURCHASES TO ENCOURAGE RETAIL SPENDING
- (D) MORE MONEY MORE QUICKLY FOR HOUSING - FROM OCTOBER 31 ABOUT 64 MILLION DOLLARS WILL BE RELEASED FOR HOUSING THROUGH A REDUCTION OF THE GOVERNMENT SECURITY RATIOS APPLYING TO SAVINGS BANKS. THE MOVE HAS BEEN BROUGHT FORWARD THREE MONTHS. ALSO, THE POST OFFICE WILL BE AUTHORIZED TO LEND ABOUT 19 MILLION DOLLARS ON SECOND AND SUBSEQUENT MORTGAGES FOR HOUSING
- (E) MORE JOB CHANCES FOR YOUNG PEOPLE - MEASURES ARE PROPOSED TO ENCOURAGE THE VOCATIONAL TRAINING OF YOUNG PEOPLE, IN PARTICULAR TO HELP CUT UNEMPLOYMENT AMONG THE YOUNG, ENHANCE THEIR OPPORTUNITIES AND PROVIDE THEM WITH SOME OF THE SKILLS NEEDED IN THE ECONOMY IN THE FUTURE. THE FACILITIES OF TECHNICAL INSTITUTES AND SCHOOLS WILL BE USED AND TRAINEES WILL BE PAID THE LIMITED OFFICIAL USE

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PAGE 03 WELLIN 04908 01 OF 02 000000Z

UNEMPLOYMENT BENEFIT DURING SHORT FULL-TIME COURSES.

- (F) IN THE GOVERNMENT SECTOR, ADDITIONAL EXPENDITURE HAS BEEN APPROVED TO ALLOW DEPARTMENTS TO MAKE FULLER USE OF THEIR TRAINING FACILITIES
- (G) THE MAORI TRADE TRAINING PROGRAM IS TO BE EXPANDED TO TAKE IN MORE APPLICANTS AND OFFER A WIDER RANGE OF COURSES
- (H) A PILOT PROJECT IS TO BE INTRODUCED IN AUCKLAND TO ENCOURAGE PRE-APPRENTICESHIP TRAINING, ALONG THE LINES OF EXISTING MAORI TRADE TRAINING SCHEME
- (I) THE DEPARTMENT OF LABOR'S EMPLOYMENT SERVICE IS TO BE EXPANDED TO HELP TO PLACE UNEMPLOYED PEOPLE
- (J) MAINTENANCE EXPENDITURE ON PUBLIC BUILDINGS IS TO BE INCREASED USING PRIVATE SECTOR CONTRACTORS, AND IT IS PLANNED TO SUBSIDIZE THE CREATION OF NEW JOBS ON FARMS
- (K) TRADING BANKS ARE TO BE DIRECTED TO GIVE HIGHER PRIORITY TO LENDING TO FINANCE STOCKHOLDING
- (L) RESERVE ASSET RATIO POLICY IS TO BE EASED BY INCREASING THE MARGIN OF TRADING BANK "FREE RESERVES" (I.E. RESERVES NOT TIED TO GOVERNMENT STOCK)
- (M) THE GOVERNMENT SECURITY RATIO ON LIFE INSURANCE OFFICES WILL BE REDUCED BY ONE PERCENT AND THE OFFICES

REQUESTED TO INVEST THE 24 MILLION DOLLARS RELEASED IN INDUSTRIAL PROJECTS, PARTICULARLY THOSE WITH AN EXPORT ORIENTATION

(N) EXTENSIONS TO THE EXPORT SUSPENSORY LOAN SCHEME AND THE NEW MARKETS DEVELOPMENT GRANT SCHEME ARE PROPOSED TO MAINTAIN THE EXPORT DRIVE

(O) THE ACTIVITIES OF THE DEVELOPMENT FINANCE CORPORATION ARE TO BE EXPANDED TO PROVIDE MORE EQUITY FINANCE AND WORKING CAPITAL TO EXPORTERS

(P) THE COVERAGE OF THE INCREASED EXPORTS TAX INCENTIVE HAS BEEN EXTENDED TO INCLUDE A WIDER RANGE OF PRODUCTS. SIMILARLY, THE INCENTIVES FOR THE EXPORT OF

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PAGE 01 WELLIN 04908 02 OF 02 010009Z

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INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03

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LIMITED OFFICIAL USE SECTION 02 OF 02 WELLINGTON 04908

SERVICES WILL BE EXTENDED IN THEIR COVERAGE

(Q) NEXT YEAR IS TO BE DECLARED "EXPORT YEAR".

KEY OVERSEAS TRADE POSTS WILL BE STRENGTHENED AND THE EXPORT-IMPORT CORPORATION WILL BE ASKED TO CONSIDER OPENING ADDITIONAL TRADE CENTERS IN SOUTH-EAST ASIA AND NORTH AMERICA

(R) ADDITIONAL FUNDS WILL BE ALLOCATED TO THE RURAL BANK FOR FARM DEVELOPMENT AND REFINANCE

(S) SUSPENSORY LOANS WILL BE MADE AVAILABLE FOR ADDITIONAL PROCESSING OF MEAT AND DAIRY PRODUCTS.

4. THE TIMING OF THE ANNOUNCEMENT WAS OCCASIONED

BY A NUMBER OF ELEMENTS, SOME ECONOMIC, SOME POLITICAL. ON THE LABOR SCENE MINISTER GORDON HAS BEEN EMPHASIZING CONCERN THAT WITH THE CONTINUED TIGHT ECONOMIC SITUATION THE NATION MIGHT HAVE TO CONTEND WITH SERIOUS UNEMPLOYMENT EARLY NEXT YEAR AS SECONDARY SCHOOL LEAVERS ENTER AN ALREADY SATURATED LABOR MARKET. IT IS NOT SURPRISING LIMITED OFFICIAL USE

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PAGE 02 WELLIN 04908 02 OF 02 010009Z

THEREFORE THAT THE JUST-ANNOUNCED MEASURES PLACE SUCH HEAVY EMPHASIS ON JOB CREATION AND VOCATIONAL TRAINING MEASURES.

5. THE NEW MEASURES HAVE ALSO BEEN INTRODUCED AT A TIME WHEN THE GOVERNMENT'S FINANCIAL POSITION AND THE CURRENT RATE OF INFLATION ALLOW THE POSSIBILITY OF MODEST REFLATION WITH MINIMAL RISK OF CREATING UNACCEPTABLE INFLATIONARY PRESSURES. ON THE BUDGETARY SIDE, RECENT CUTBACKS ON GOVERNMENT EXPENDITURE AND AN UNEXPECTED INCREASE IN THE TAX TAKE (WHICH WAS DUE LARGELY TO INFLATIONARY WAGE ADJUSTMENTS) HAVE LEFT THE GNZ WITH SOME 250 MILLION DOLLARS IN UNBUDGETED FUNDS SOME OF WHICH CAN BE USED TO FINANCE THE PRESENT PACKAGE. AS A RESULT THE NEW MEASURES WILL INCREASE THE DEFICIT BEFORE BORROWING BY A SOMEWHAT LOWER FIGURE THAN WOULD BE ANTICIPATED FROM THE SCOPE OF THE MEASURES ANNOUNCED (47 PERCENT FROM 382 MILLION DOLLARS TO 562 MILLION DOLLARS).

6. WITH AN ALREADY HIGH INFLATION RATE GOVERNMENT PLANNERS ARE ALWAYS SENSITIVE TO ANY MEASURES WHICH MIGHT SET OFF AN UNACCEPTABLY RAPID PRICE/WAGE SPIRAL. APPARENTLY, THE RECENTLY PUBLISHED CONSUMER PRICE INDEX (CPI) FIGURES OF 3.5 PERCENT FOR THE SEPTEMBER QUARTER, A DECLINE FROM THE 4.8 PERCENT IN THE JUNE QUARTER, WERE CONSIDERED A FAVORABLE ENOUGH SIGN TO ALLOW THE RISK OF A SLIGHT EXPANDED BUDGET AT THIS TIME. ON A SEPTEMBER YEAR BASIS THE ANNUAL RATE OF INCREASE HAS DROPPED FROM 17.2 PERCENT IN 1976 TO 14.4 PERCENT IN 1977 - STILL HIGH IN U.S. TERMS BUT AT A RATE WHICH THE GNZ REGARDS AS BEING "TOLERABLE".

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PAGE 03 WELLIN 04908 02 OF 02 010009Z

7. THE TIMING OF THE REFLATIONARY MINI-BUDGET, COMING IN A PRE-ELECTION YEAR, COUPLED WITH THE CPI PUBLICATION, WAS ALSO POSSIBLY MOTIVATED IN PART BY THE

FACT THAT THE POPULARITY OF THE NATIONAL PARTY GOVERNMENT IS AT AN ALL-TIME LOW. A RECENT POLL SHOWED THAT THE GNZ'S POPULARITY DROPPED MARKEDLY IN THE MONTH OF SEPTEMBER. EDITORIALS HAVE PLACED THE RESPONSIBILITY FOR THIS ON A WEARINESS IN THE COMMUNITY WHICH HAS RESULTED FROM THE ECONOMIC SITUATION - MAINLY RISING PRICES AND RISING UNEMPLOYMENT. THE PUBLIC CAN SEE LITTLE CAUSE FOR OPTIMISM. THE SEPTEMBER POLL SHOWED THAT 33 PERCENT OF THOSE SAMPLED (VS 45 PERCENT IN AUGUST) APPROVED THE GNZ'S PERFORMANCE TO DATE. THE OPPOSITION TOO FARED BADLY, ALTHOUGH WITH 63 PERCENT OF THE POPULATION DISAPPROVING OF THEIR PERFORMANCE IN OFFICE, THERE IS NO VARIANCE FROM THE AUGUST FIGURES. WHEN THE NATIONAL GOVERNMENT LOST OFFICE IN 1972 TO THE LABOUR GOVERNMENT THEY LEFT STIMULATION OF THE ECONOMY UNTIL THE ELECTION YEAR WHICH, MANY OBSERVERS FELT, WAS TOO LATE TO AFFECT THE ELECTORATE. BY STIMULATING THE ECONOMY IN A PRE-ELECTION YEAR, THERE WILL BE TIME FOR THE MEASURES TO WORK THEIR WAY THROUGH THE ECONOMY. IF HOWEVER THE EASING COMES TOO SOON, IT WILL BE FORGOTTEN.

8. ADDITIONAL ANALYSIS AND COMMENT FOLLOWS SHORTLY IN SEPT. HEALY

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Message Attributes

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Disposition Approved on Date:
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